

India Ratings Downgrades Panchmahal Steel's Bank Facilities to 'IND BBB-'; Outlook Stable

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India Ratings and Research (Ind-Ra) has downgraded Panchmahal Steel Limited's (PSL) bank facilities to 'IND BBB-' from 'IND BBB'. The Outlook is Stable. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR700 (reduced from INR900)	IND BBB-/Stable/IND A3	Downgraded
Non-fund-based working capital limit	-	-	-	INR570 (reduced from INR1,320)	IND A3	Downgraded

Analytical Approach

Ind-Ra has taken a standalone view of PSL to arrive at the ratings.

Detailed Rationale of the Rating Action

The downgrade reflects a continuous decline in PSL's revenue over FY23-FY24, a lower-than-expected EBITDA level and continued modest credit metrics with the interest coverage (operating EBITDA/gross interest expense) remaining below 3.0x. Ind-Ra expects the EBITDA margins to remain susceptible to fluctuations in raw material prices and nature of the business. Although there is a slight improvement in the EBITDA margin during Q1FY25, it remains below Ind-Ra's medians.

List of Key Rating Drivers

Strengths

- Continued medium scale of operations despite continuous decline in revenue over FY23-FY24
- Established presence in steel industry

Weaknesses

- Modest EBITDA margins
- Modest credit metrics
- Presence in highly competitive and cyclical stainless-steel industry
- Forex risks

Detailed Description of Key Rating Drivers

Continued Medium Scale of Operations despite continuous decline in revenue over FY23-FY24: PSL's revenue continued to decline to INR4,266.54 million in FY24 (FY23: INR4,871.24 million, FY22: INR5,713 million), largely on account of around 6.29% yoy decrease in sales volumes. FY22 had been an exceptional year for PSL as the prices of steel were high. During 1QFY25, the company booked revenue of INR981.26 million (1QFY24: INR1,073.7 million) with an outstanding order book position of INR400 million as of end-July 2023, which is likely to be executed in 30-40 days. Furthermore, lower demand in the global market, along with the ongoing Russia-Ukraine war led to decline in demand of steel products during FY23-FY24. Ind-Ra expects PSL's revenue to improve moderately over the near-to-medium term due to the likely overall price correction in the global market.

Established Presence in Steel Industry: PSL has a presence of about five decades in the steel market and produces various modified chemistries for customer-specific applications. It has fully integrated facilities from steel melting to cold finishing and offers a range of stainless-steel grades in hot rolled wire rod and bars, and cold finished bars and wires. PSL has an installed capacity of 72,000 metric tonnes per annum (mtpa) for bars, rods, coils and wires, and a **stainless-steel melting shop of 1,50,000mtpa for steel billets**. The company also has an established marketing network in both domestic and exports markets, which has helped in building an established client base and a strong market position over the years.

Modest EBITDA Margins: After a significant decline in the EBITDA in FY23, the EBITDA continued to be modest at INR157.07 million (FY23: INR155.34 million; FY22: INR768.10 million) with EBITDA margins of 3.68% (3.19%; 13.44%). The margins slightly improved in FY24, although remained lower than Ind-Ra's expectations, due to a decrease in operating cost mainly selling expenses. The return on capital employed was 3.60% in FY24 (FY23: 3.2%; FY22: 29.1%). The agency expects the margins to remain susceptible to fluctuations in the raw material prices but slightly improve to 4.0%-4.8% over the near-to-medium term.

Modest Credit Metrics: The net leverage (adjusted net debt/operating EBITDAR) improved to 2.54x in FY24 (FY23: 4.92x) mainly due to a decline in the overall borrowings to INR399.01 million (INR764.36 million), resulting from a decrease in short-term debt. However, the gross interest coverage (operating EBITDA/gross interest expense) deteriorated slightly to 1.98x in FY24 (FY23: 2.19x) due to an increase in interest and finance cost with the increase in bank rates, and stable EBITDA. Ind-Ra expects the credit metrics to remain at similar levels in FY25 amid the absence of any debt-funded capex.

Presence in Highly Competitive and Cyclical Stainless-Steel Industry: PSL's product portfolio includes specialised stainless-steel products such as stainless-steel wire, bright bar and wire rod used in various industries, with automobiles and capital goods being large demand segments. Thus, the demand for such products is largely linked to the demand in these segments, which closely follow the macroeconomic cycle. Furthermore, the presence of a large number of unorganised players in the stainless-steel products manufacturing industry results in a limited bargaining power of the players, thus restricting their profitability.

Forex Risk: PSL's imports account for over 67% of its purchases and exports account about 20% of its sales, thus, on an average, 15% of the forex risk is mitigated through natural hedging. According to the management, the cost of hedging is higher than the forex loss incurred by the company; thus, it does not opt for hedging.

Liquidity

Stretched: The average maximum utilisation of the fund-based and non-fund-based limits was 72% and 20%, respectively, over the 12 months ended July 2024. The cash and cash equivalents stood low at INR0.38 million at FYE24 (FYE23: INR0.44 million, FYE22: INR30.83 million). The net working capital cycle elongated to 157 days in FY24 (FY23: 138 days, FY22: 144 days) owing to a significant reduction in the creditor period to 21 days (40 days, 30 days) as PSL made early payments to its suppliers and utilised lower letter of credit limit. However, this was partially offset by a decrease in the inventory holding period to 157 days in FY24 (FY23: 138 days). The cash flow operations turned positive to INR326.78 million in FY24 (FY23: negative INR367.65million), due to a decrease in inventory holdings. Consequently, the free cash flows turned positive to INR 434 million in FY24 (FY23: negative INR 309.78 million). However, the company does not have any debt-funded capex in the near term and zero reliance on term debt.

Rating Sensitivities

Positive: A substantial increase in the scale of operations, along with operating profitability and an improvement in the liquidity profile and the interest coverage remaining above 3.0x, all on a sustained basis, will be positive for the ratings.

Negative: A substantial decline in the scale of operations along with operating profitability, leading to deterioration in the liquidity position or the interest coverage reducing below 1.75x, all on a sustained basis, would be negative for the ratings.

About the Company

Established in 1972, Vadodara, Gujarat-based, PSL manufactures stainless steel products such as wires, welding wires, wire rods, wire bars, wires for knitting, among others, with an installed capacity of 72,000 MTPA (27.34% utilised as on 31 March 2024). Ashok Malhotra is the promoter. PSL has a fully integrated facilities from steel melting to cold finishing, with range of stainless steel grades in hot-rolled wire rods and bars, and cold finished bars and wires (austenitic, martensitic, ferritic, duplex and low nickel - high manganese (200 series) grades). These fully integrated facilities enable the company to produce stainless steel with various modified chemistries for customer-specific applications.

Key Financial Indicators

Particulars	1QFY25	FY24	FY23
Revenue (INR million)	981.26	4,266.54	4,871.24
EBITDAR (INR million)	52.86	157.07	155.34
EBITDAR margin (%)	5.39	3.68	3.19
Gross interest coverage (x)	4.29	1.98	2.19
Net leverage (x)	NA	2.54	4.92
Source: PSL; Ind-Ra			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook	Historical Rating/Outlook		
				22 September 2023	4 September 2023	2 August 2022
Issuer rating	Long-term	-	-	WD	IND BBB/Negative	IND BBB/Stable
Fund-based working capital limit	Long-term/Short-term	INR700	IND BBB-/Stable/IND A3	-	IND BBB/Negative/IND A3+	IND BBB/Stable/IND A3
Non-fund-based working capital limit	Short-term	INR570	IND A3	-	IND A3+	IND A3+
Term Loan	Long-term	-	-	-	-	WD

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DETAILED FINANCIAL SUMMARY

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